



North Carolina Department of Health and Human Services Office of the Controller

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MEMORANDUM

TO: Mental Health Private Providers

FROM: Gary Fuquay [signed]
DHHS Controller

Richard J. Visingardi, Ph.D.
Director, DMH/DD/SAS

DATE: February 4, 2002

RE: NEW Guidelines for Reporting Costs between Administration and Direct Cost of Care on the Cost Finding Report

In July 2001, the Area Administrative Cost Workgroup was established by DHHS to address the requirements of SB 1005, Section 21.65, as well as the requirements of HB 381, "MH Reform Bill" and the proposed MHDDSAS State Plan.

The Workgroup established by DHHS was co-chaired by Curtis Crouch, Section Chief of Cost Accounting/Financial Reporting, DHHS Controller's Office and Phillip Hoffman, Chief Budget Officer, DMHDDSAS. Other Workgroup members as follows:

J. Thomas Lundy - Catawba County Manager
Mike Ruffin - Durham County Manager
Ken Windley - Davie County Manager
Tom McDevitt - Co-Director, Smoky Mountain Center for MHDDSAS
Ann Wilson - Finance Officer, Piedmont Area MHMRSAS
Mike Watson - Director, Sandhills Center for MHDDSAS
Jack Parsons - Finance Officer, Blue Ridge Center for MHDDSAS
Vance Holloman - Deputy Dir., Division of Local Government Finance, Dept. of State Treasurer (LGC)
Jim Burke - Accountant, Dept. of State Treasurer (LGC)
Rick DeBell - Program Resource Specialist, DMHDDSAS
Tara Larson - Assistant Director, DMHDDSAS
Jim Panton - Chief of Rate Setting & Reimbursement, DMA
Kyle Fay - Budget Analyst, Division of Budget & Analysis
Gary Fuquay - Controller, DHHS
Pat Jeter - Branch Head for Rate Setting, DHHS Controller's Office

Aydlett Hunike - Rate Analyst, DHHS Controller's Office

Jack Chappell - Chief of Program / Benefit Payment Section, DHHS Controller's Office

Bob Duke - Branch Head for DSB, DVR, POMCS, DMH, DYS; DHHS Controller's Office

SB 1005, Section 21.65(a), requires that cost reporting guidelines be developed in consultation with the Local Government Commission (LGC) and the North Carolina Association of County Commissioners (NCACC). The two LGC representatives, Vance Holloman and Jim Burke, were appointed to the Workgroup by Bob High, Deputy State Treasurer, State and Local Finance Division. The three NCACC representatives, J. Thomas Lundy, Mike Ruffin and Ken Windley, are all county managers and were appointed by the NCACC through Patrice Roesler, Director of Intergovernmental Programs.

Based on the Workgroup's activities, the attached "*Guidelines for Reporting Cost between Administration and Direct Cost-of-Care Matrix*" has been developed in order to ensure uniformity among area programs/private providers in the assignment of costs to either direct care or administration. Treatment of costs in the Matrix is consistent with methodologies utilized by the Division of Medical Assistance (DMA) for rate setting and cost reports for adult care homes and nursing homes. Compliance with the attached Matrix is mandatory effective July 1, 2002, and optional for the remainder of SFY 2001- 02. This approach was followed since it was impractical for the area programs, private providers and counties to change their Chart of Accounts in mid-year during SFY 2002.

Considered in this process was the intent of the Special Provision to define which costs should be included in administration as well as to analyze the scope of previously reported administrative cost figures. In past cost findings, the percentage of administrative cost equaled the sum of expenditures placed in the Area Administration costs and General and Support costs categories divided by total Area Program expenses. Administrative costs varied greatly from Area Program to Area Program based on how expenditures were assigned to the different cost centers in the actual report. The cost finding allowed Area Programs to report all expenses in the Area Administration and General and Support cost centers (allocated out to service cost centers) or to charge expenses directly to the service cost centers. There was not a finite list of items given to Area Programs for placing or assigning costs to particular cost centers. Under the proposed new Chart of Accounts, many of the costs previously classified as General and Support are now more appropriately considered indirect costs based on cost reports for adult care homes and Medicaid Nursing Home rate setting processes. As well, a portion of such costs is now being allocated to direct services rather than to administration.

Each cost type listed on the Matrix was thoroughly discussed as to whether the cost was indirect, direct (*cost of care*) or unallowable. Indirect costs were further distributed to administration or direct cost of care based upon the type of program (*i.e. residential, clinical/day program, administrative*). Those indirect costs falling into the administrative category are those that are targeted to fall within the legislatively mandated administrative cap set forth in SB 1005, Section 21.65. Consideration was given to the different types of programs and classification of the accounts. Also note that the Workgroup has crosswalked each item on the Matrix to the line items 1XX through 8XX with which you are familiar in the Cost Finding report. For further detail on the individual items, please go to the Department of State Treasurer's web site at <http://ncdst-webt.treasurer.state.nc.us/SLG/frpolicy.htm>.

Given the complexity of this issue and the need to coordinate practices and policies among funding agencies, the DHHS Controller's Office researched how DMA and the Division of Public Health (DPH) treated a number of cost items such as advertising, data entry operators, data processing coordinators and programmers, licenses and supplies on the respective divisions' cost reports. Consistency within the cost reporting process was an underlying objective and this consistency was built into the final Matrix.

To support the classification of items, it was determined that personnel position expenditures would be allocated to administration and direct care based on functions of the position. A personnel position list has

been developed with each position defined as direct, indirect or either (*depending on functions of the position and not merely on position title*). Though the list is not meant to be all-inclusive, it is provided for ongoing guidance for the classification and allocation of any position not otherwise included on the list.

The new Matrix will not be mandatory until the beginning of SFY 2003 or more specifically, July 1, 2002. Implementation of the new Matrix will alter the determination of area and county administrative costs. The first cost review under the new Matrix will not take place until after the close of SFY2003.

Should you have questions regarding the new Chart of Accounts, please contact Pat Jeter at (919) 715-8188 or Rick DeBell at (919) 733-7013.

Cc: DMH/DD/SAS Executive Staff
Lanier Cansler
Carol Duncan Clayton
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Area Administrative Cost Workgroup
Fred Waddle